

# **YELLOW BRICK ROAD HOLDINGS LIMITED (ASX:YBR)**

## **Investor Presentation**

October 2017

# AGENDA

## Y Introduction

### Y Synopsis

Mark Bouris

### Y Financial Performance FY17

Richard Shaw

### Y Business Priorities FY18

Mark Bouris

## Y Overview by business area:

### Y Lending

Andrew Rasby & Clive Kirkpatrick

### Y Wealth

Adam Youkhana

### Y Marketing & Technology

Scott Graham

### Y Learning Initiative

Sean Preece

## Appendices

# Executive Synopsis

- Y Maiden Profit \$2.0m NPBT driven by improved margin rationalised cost base
  - Y Gross profit excluding discontinued operations up 9% (\$2.9m)
  - Y Operating costs down 21% (\$9.0m)
  - Y Underlying operating cash flow surplus
- Y Restructure to align management focus on key business operations
  - Y Vow distribution network
  - Y YBR distribution network
  - Y Wealth products
  - Y Group Lending
- Y Investment in technology and infrastructure
  - Y Toto
  - Y Ruby
  - Y Money Manager
- Y Wealth momentum building

# FY17 Performance: Financial Results

## Financial Trends

- Maiden Profit \$2.0m
- Underlying EBITDA \$5.2m (FY16 Loss of \$3.9m)
- Revenue flat but gross profit from continuing operations up by 9% (\$9m)
- Overheads reduced by 21% (\$9m)
- Marketing down by \$5.5m - reflecting adoption of efficient strategies and platforms
- Acquisition costs down by \$1.3m (majority of activity completed in H1)
- Other costs down by \$2.5m
- Operating costs (excluding integration costs) \$33m per annum (FY16 - \$41m)

# FY17 Performance: highlights & KPIs

FY17 result demonstrates a scalable, profitable business model, with core businesses growing and margins increasing

- Y Maiden Profit NPBT \$2.0m
- Y Most long term drivers on track
- Y Rationalised YBR branch network improved branch productivity
- Y Integration of acquired business coming to completion
  - Y significantly enhance product depth & distribution capacity
- Y Shift to local marketing & technology enhances scalability
- Y Restructured executive creates operating efficiencies and focus
- Y Significant investment in platform & technology

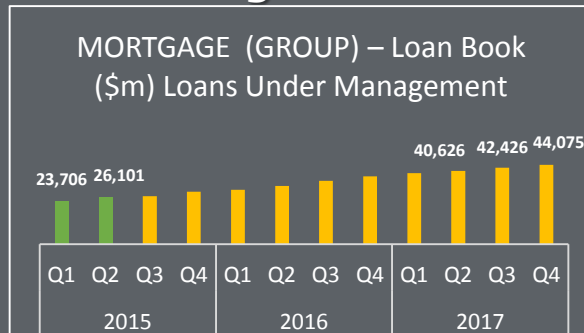
	FY16	FY17	FY17 vs FY16
Underlying Loan Book	\$37.8b	\$44.1b	17%
Embedded Value of Loan Book	\$43.3m	\$49.9m	15%
Settlements	\$15.9b	\$15.3b	(4%)
FUM*	\$703m	\$1,490m	112%
PUM**	\$10.4m	\$16.5m	59%
Total Wealth Income	\$10.4m	\$11.7m	13%
Total Lending Income	\$205m	\$208m	1%
Representatives - Brokers #	1,452	1,544	6%
- Advisers #	504	542	8%
Life Volumes (# policies)	2,092	2,441	17%
Advice Volumes	1,025	657	(36%)
Overheads (statutory accounts)	\$47.1m	\$32.8m	(30%)
Underlying EBITDA	(\$3.9m)	\$5.2m	-
NPAT	(\$9.5m)	\$1.0m	-
NPBT	(12.7m)	\$2.0m	-
Debt position	\$7.6m	\$8.6m	13%
Net Cash	\$6.9m	\$5.1m	(26%)



# FY17 Performance: highlights & KPIs

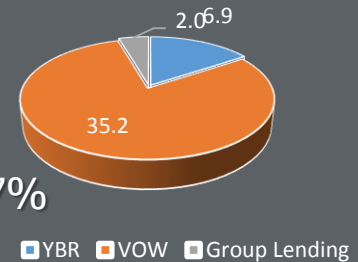
Lending Scale continuing to increase. Opportunity to drive penetration of high margin products to drive increased profitability in FY18

## Loan Book grows 17%

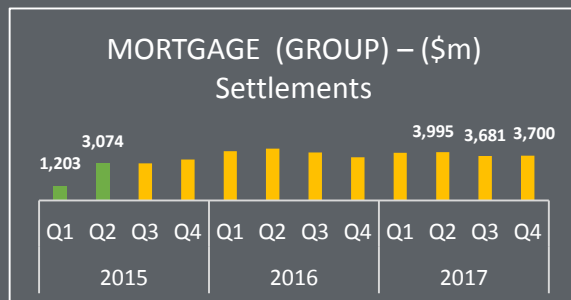


- YBR underlying loan book up 28%
- Vow underlying book up 16%
- Group Lending underlying book down 7%

Loan Book FY17 (\$b)

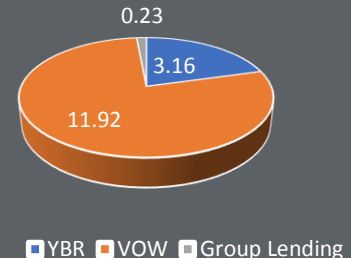


## Settlements 4% lower



- Vow down by 4%:
  - mostly low margin loans
  - minimal impact on Gross Profit
- YBR Settlements improve by 6%
  - driven by branch productivity

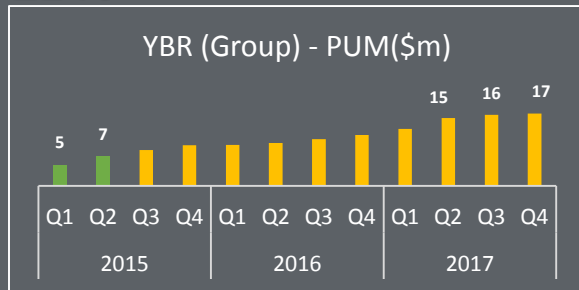
Settlements FY17 (\$b)



# FY17 Performance: highlights & KPIs

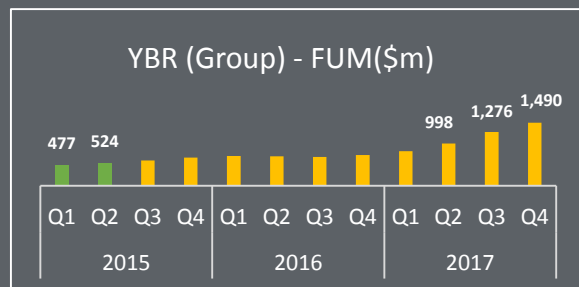
Wealth business gaining momentum: Growth in underlying assets will drive future revenues

## PUM increases 21%

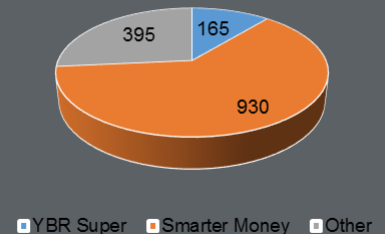


📈 Growth driven by 17% increase in life volumes

## FUM increases 112%



📈 Growth dominated by high margin (as at 30 June 2017, \$'m)  
Smarter Money JV & YBR Super



# FY18 Focus

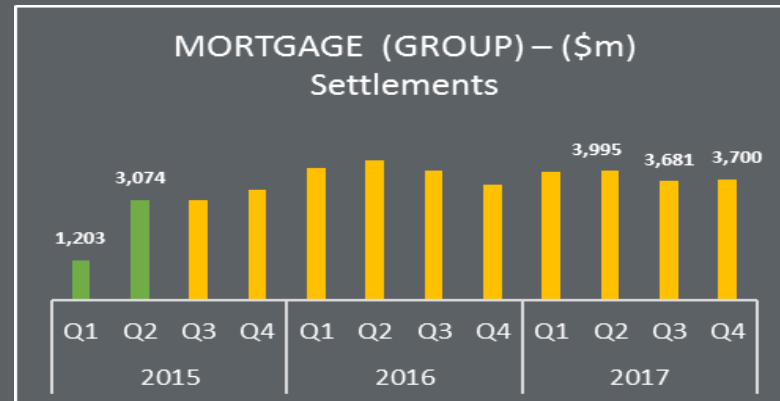
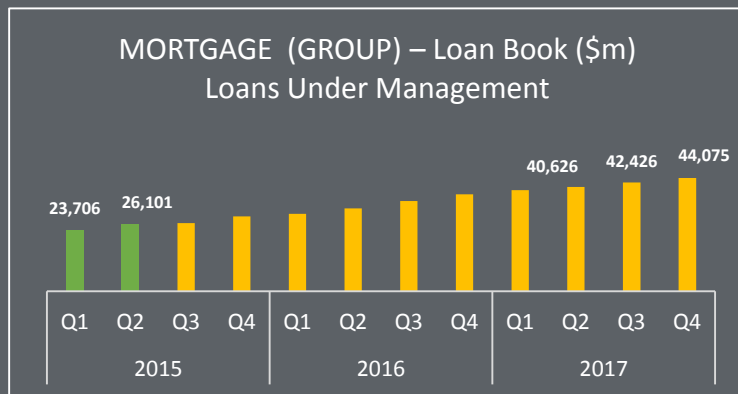
## Drive increased profit by:

- Y Higher penetration of, high margin, Group Lending
  - Y Average Group Loan worth \$5,031
  - Y Strategy to increase Vow & YBR penetration
- Y Increase wealth capability within YBR branches
- Y Recruit wealth branches with existing client base to ramp up growth
- Y Increase margin in direct wealth products
- Y Leverage new IT platforms to drive efficient business model
- Y Training platform a new source of revenue



# Lending

# Lending: FY17 Performance Overall



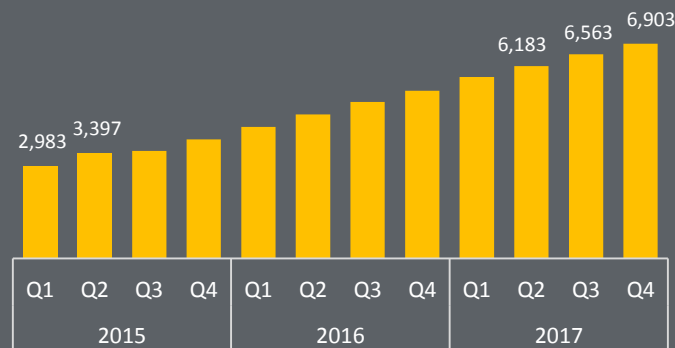
	FY16	FY17	FY17 V FY16
Underlying loan book	\$37.8b	\$44.1b	17%
Settlements	\$15.9b	\$15.3b	(4%)
Credit Representatives - Authorised	1452	1544	6%
Gross Profit	\$26.9m	\$30.3m	13%
Revenue	\$205m	\$208m	1%

- Y Underlying Loan book now at \$44b up 17% and valued at \$50m on balance sheet
- Y Residential lending market adversely impacted by tightening credit
  - Y Investor – Investor growth capped at 10% growth on PCP
  - Y LVR – pricing in favour of sub 80%
- Y Improved margins driving increased profitability

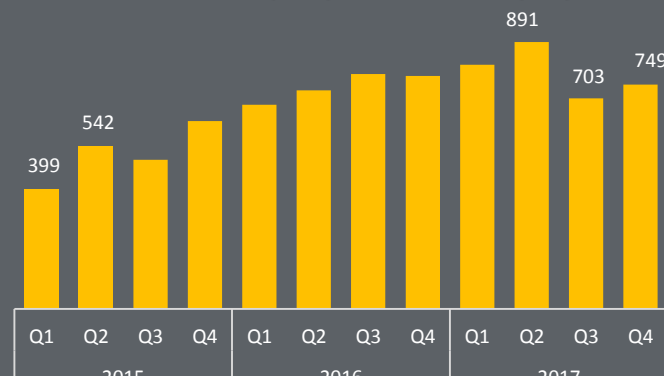
# YBR Lending: FY17 Outcomes

- Y Settlements up 4% to \$3.2b (FY16 \$3.0b)
- Y Underlying Loan Book up 28% to \$6.9b (FY16: \$5.4b)
- Y Rationalised branch network
  - Y 141 YBR lending branches reduced to 131
  - Y Increased branch productivity
    - Y Avg settlements per branch per month up from \$1.8m to \$2.0m

MORTGAGE (YBR) – Loan Book (\$B) Loans Under Management



MORTGAGE (YBR) – Settlements (\$m)



# YBR Lending: FY18 Focus

## ❗ Improve branch recruitment

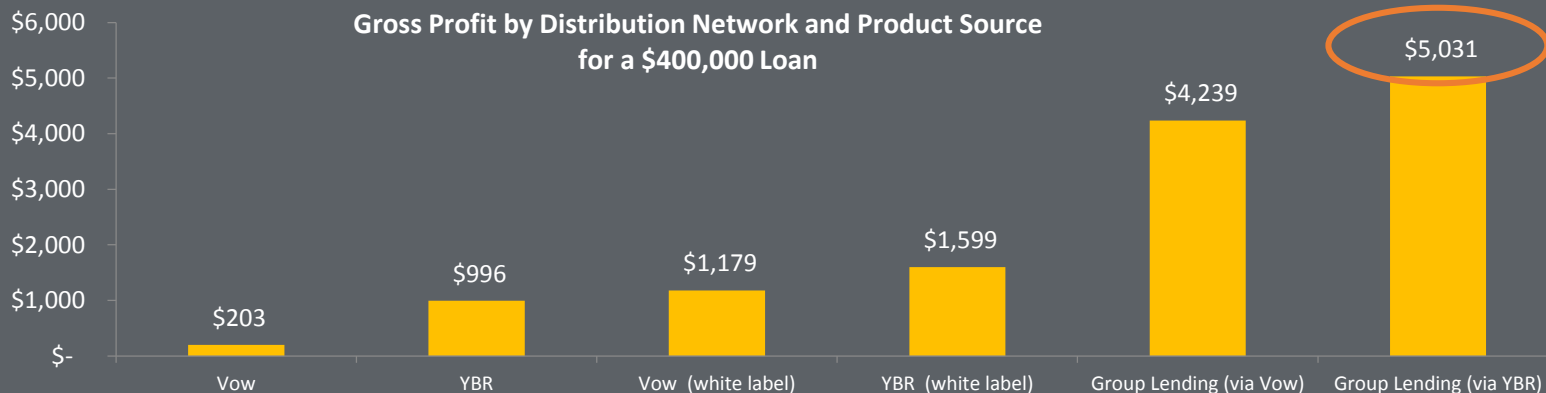
- ❗ Higher minimum standard ( >2 years' experience)
- ❗ Induction increase from 3 to 5 days – write loans from Day 1
- ❗ Highly networked/experienced BDM appointed

## ❗ Further enhance branch productivity

- ❗ Focus on Top 10 branches in each state
- ❗ Marketing automation to boost leads at local level
- ❗ Increase share of wallet with more services: Money Coaching, SMI, Wealth
- ❗ Improve cross-sell through Wealth and Commercial Lending Hub models

# Group Lending: FY18 Focus

- Y Acquired Mortgage Manager business (Loan Avenue and Resi)
  - Y consolidated into YBR Group Lending
  - Y provide a high margin alternative for the Vow and YBR distribution networks
  - Y typical \$400,000 loan generates \$5,031 if delivered by Group Lending and settled by YBR.
- Y FY17 Group Lending only 3% of consolidated settlement volumes: significant opportunities to boost penetration
- Y Appointed Head of Group Lending to drive performance



# Vow Lending: FY17 Outcomes



Y **Loan Book increased by 16% to \$35.2b (FY16: \$30.3b)**

Y **Residential lending impacted by tightening credit**

- Y Resulted in 6% decline in settlement YOY
- Y FY17 Settlements \$11.9b (FY16: \$12.7b)
- Y Predominantly flat fee, low margin
- Y Minimal impact on bottom line

Y **Commercial lending success**

- Y Settlements up from \$0.3b to \$1.1bn over 3 years

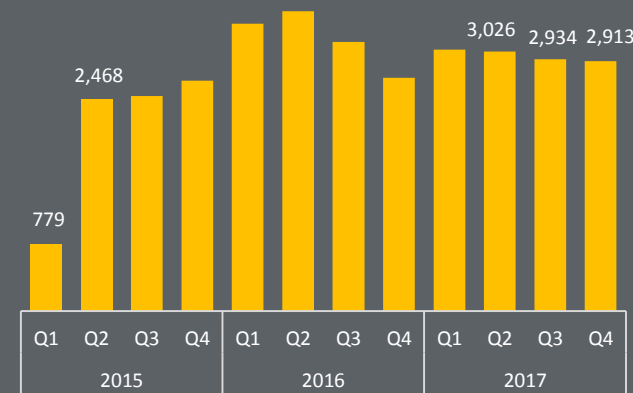
Y **Staffing refresh**

- Y New stronger leadership in Vic/Tas & WA
- Y Restructure NSW > group product and recruitment

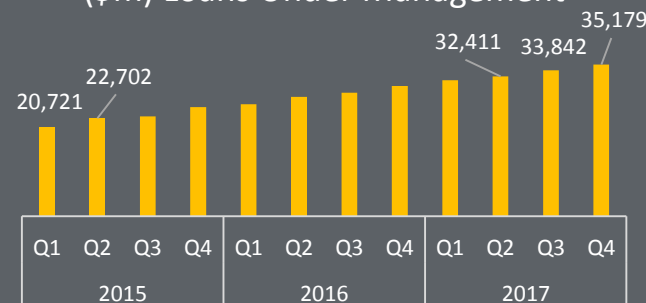
Y **Focus on improving broker quality**

- Y Identify and terminate non performing tail

MORTGAGE (Vow) – Settlements (\$m)



MORTGAGE (Vow) – Loan Book (\$m) Loans Under Management



# Vow Lending: FY18 Focus



## Y Focus on Group Lending, high margin opportunity

- Y no longer recruiting flat fee, low margin brokers

## Y Training and Education

- Y Quality Advice & Professionalism Program
- Y Governance
- Y Response to ASIC Broker Rem Review
- Y Mentor program

## Y Drive Profitability

- Y Uplift in Group Lending share
- Y Uplift in White Label share
- Y Closure of Flat Fee offer

## Y Recruitment/Retention

- Y Upgraded Advice platform and introduction of Vow Professional will set the benchmark in aggregation

## Y Leverage Commercial Lending success

## Y Software enhancements to be launched in October



# Wealth



# Wealth: FY17 Outcomes

	FY16	FY17	FY17 V FY16
Investments – FUM*	\$703m	\$1,490m	112%
Life insurance – PUM**	\$10.4m	\$16.5m	59%
General – Gross Premiums	\$6.6m	\$7.0	6%
Wealth Revenue	\$10.4m	\$11.7m	13%
AR General #	378	438	16%
AR Personal # ***	126	104	-17%



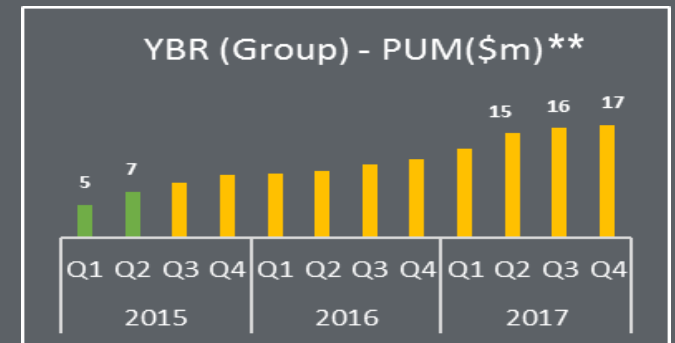
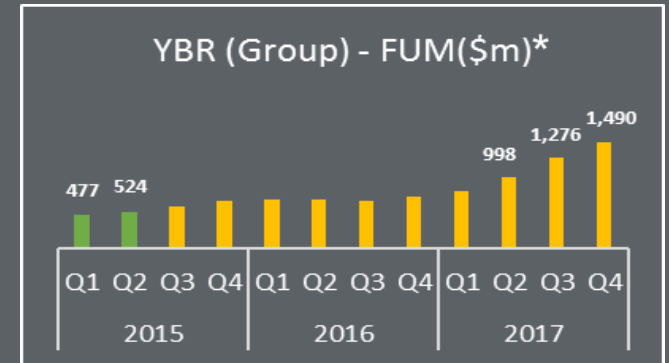
- Y 12% growth in revenue to \$11.8m (FY16: \$11.5m)
- Y High margin investment products have driven majority of FUM growth
  - Y Smarter Money grew 300% to \$900m (50% share to YBR)
  - Y YBR Super grew 43% to \$165m
- Y Life volumes increases by 17%
- Y Revenue already impacted by lower upfront commission as advisors move to “Hybrid” model
- Y Up front SOA payments impacted by advisers focusing on ongoing fees and commissions

\*FUM is underlying Funds Under Management \*\*PUM is Premiums Under Management

\*\*\* reduction in AR's was a result of some not meeting new YBR advice educational standards

# Wealth: FY17 Outcomes

- Y Aggressively built Funds Management business: an asset and annuity stream
- Y Introduced new Advice models
  - Y makes the adviser the specialist (no hybrids)
  - Y Creates ongoing Advice revenue growth
- Y PUM growth driven by 17% increase in life volumes
- Y Rationalisation of branch network has seen a decline in low activity Personal Advice ARs



\*FUM is Funds Under Management \*\*PUM is Premiums Under Management

# Wealth: The YBR Proposition

## Create

- Advice
- Investments
- Superannuation
- Smarter Money Investments (SMI)







## Protect

- General Insurance
- Life Insurance
- Mortgage Protection

## Transfer

- Wills & Estate Planning

## Distribution

-  Vow Network
-  YBR Network
-  AR's in branches
-  Mobile Advisors
-  Direct
-  Wealth Hubs

# Wealth: FY18 Focus

**Benefits to flow from rationalisation of wealth business initiated during H2 FY17.**

- Increased profitability to be driven by:
  - Established 'pathways to deliver wealth'
  - Mobile Advisors have been doubled
  - Clear articulation of product and value proposition
  - Direct recruitment of high quality wealth branches
  - Technology to streamline wealth processes
  - Money Coaching to promote wealth engagement of CRs
- Mobile and phone Advisors point of entry for previously untapped Vow Wealth opportunity

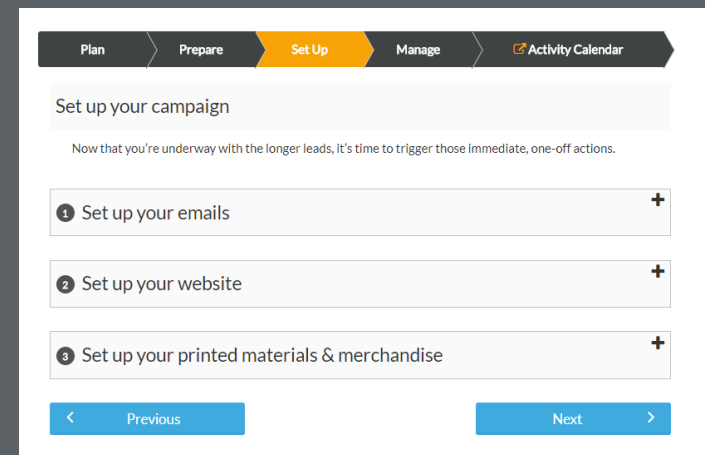
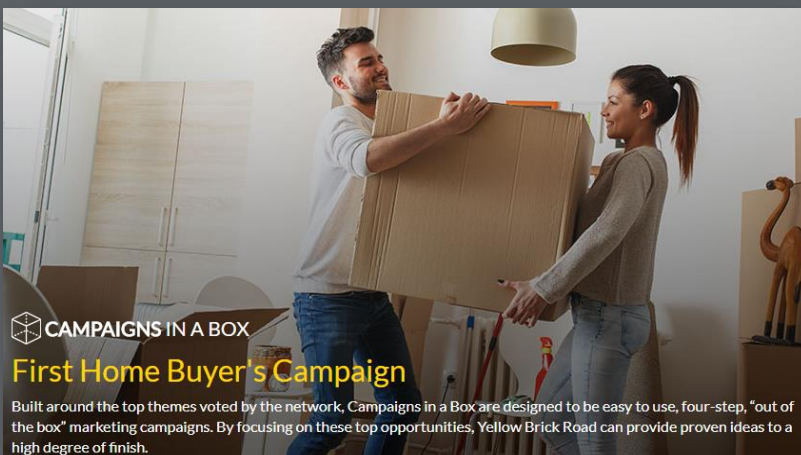
*NB: reduction in AR's was a result of some not meeting new YBR advice educational standards.*

# Marketing & Technology

# Initiatives: Local Area Marketing

## Industry leading marketing automation

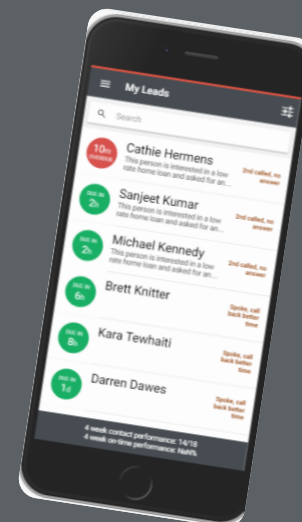
- Y Local marketing has double conversion rate
- Y Proprietary marketing technology platform
  - Y Business planning model
  - Y Workflow to trigger email, order print
  - Y Email marketing off CRM DB
  - Y Online help & guidance
  - Y Customisable calendar of activity



# Digital lead generation

## Data driven lead optimisation

- ❗ Proprietary 'Ruby' lead manager mobile App
- ❗ Track timing of adviser calls / outcomes
- ❗ Live feed to marketers / providers to optimise
- ❗ Know in 2 days what took 4-5 months
- ❗ P6M
  - ❗ reduction of 43% in cost per meeting
  - ❗ increase in conversion by 8 percentage points(PPTs)
  - ❗ reduction of lead issues by 9 PPTs



Now is the time to switch

A low interest rate home loan that suits you needs. A lower interest rate can save you thousands of dollars off your mortgage.

Start saving today >

3.58 %  
p.a.

Comparison rate\* Rate smasher

Fix your rate before it's too late

If you're worried about interest rates going up, you could fix your home loan rate today with Yellow Brick Road.

Start saving >

3.88% p.a.  
Borrower rate

3.81% p.a.  
Comparison rate\*

Empower Home Loan - 2 Year Fixed



**YellowBrickRoad**  
Wealth Management

# Cash flow advice



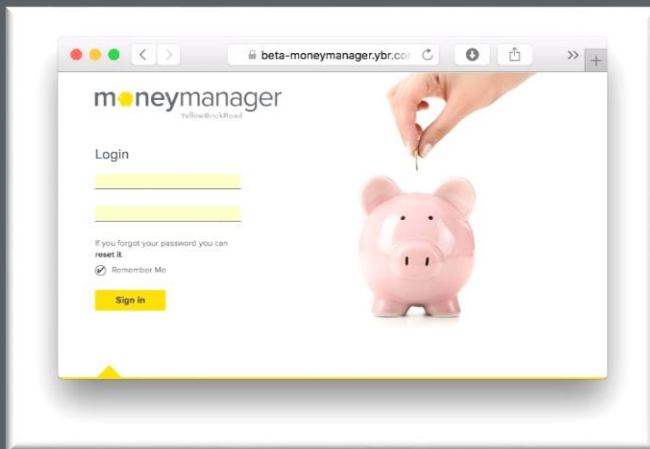
POWERED BY  
**moneymanager** YellowBrickRoad

## Y Money Coaching

- Y Set savings targets
- Y Demonstrate can service loan
- Y Pay loan down faster

## Y Money Manager

- Y Proprietary App
- Y Auto update bank transactions
- Y Industry best user interface
- Y Unique – budget / goal setting

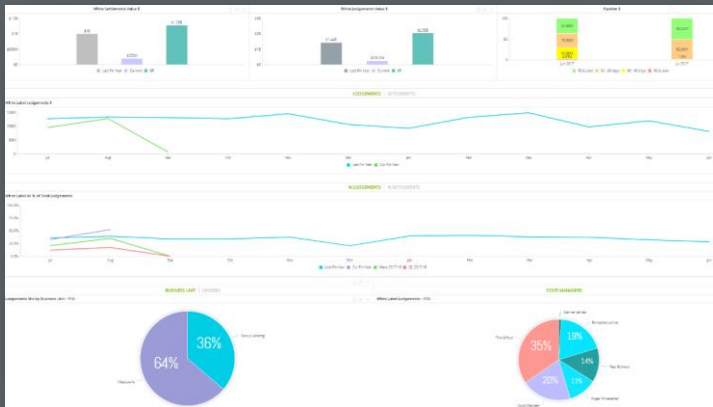




# Business reporting

## New Sisense reporting platform

- ⚡ Automated business dashboards track KPIs
- ⚡ Drill-down feature to identify drivers
- ⚡ Frees analysts for root cause work



# Training Platform – Vow/YBR Professional

## Context

- Y ASIC is demanding that aggregators supervise and monitor all brokers.

## Opportunity

- Y Sell the solution as a training platform, but build in a supervisory component
- Y Help those who need it, via support and education, resulting in more productive brokers
- Y Funders to fund the set-up & provide content; users to pay as an ongoing monthly cost
- Y Applying our experience in the more rigorous compliance environment of FOFA
- Y **Pricing: \$1788 per rep per annum > 1600 reps > Total Revenue = \$2.86m**

# Training Platform – Vow/YBR Professional

## The Platform

- Y All training and development material
- Y Induction, product, sales & marketing etc
- Y Records audit results / remedial learning
- Y Houses 'Vow Chat' an online blog
- Y A register for policies & procedures
- Y Records all CPD
- Y Available 24/7 on all devices

## The Result



Productivity

Efficiency

Consumer  
outcomes

More loans

More revenue  
Reduced risk

# Appendices

Y FY17 Profit & Loss

Y FY17 Balance Sheet

Y FY17 Cash Flow

# FY17 Profit & Loss

Consolidated Profit & Loss		FY 2016	FY 2017	% VAR
		<u>\$'m</u>	<u>\$'m</u>	
<b>Revenue from Continuing Operations *</b>		<b>215.9</b>	<b>219.7</b>	<b>2%</b>
Cash Revenue Lending	- Origination	91.0	92.1	1%
	- Recurring	62.1	71.4	15%
	- Scale Income	7.0	7.8	11%
<b>Total Lending</b>		<b>160.1</b>	<b>171.4</b>	<b>7%</b>
Cash Revenue Wealth	- Origination	4.6	4.9	6%
	- Recurring	3.9	4.9	28%
	- Direct	2.0	1.9	(3%)
<b>Total Wealth *</b>		<b>10.5</b>	<b>11.8</b>	<b>12%</b>
<b>Cash Revenue From Continuing Operations</b>		<b>170.6</b>	<b>183.1</b>	<b>7%</b>
Revenue Accounting Practice (Discontinued operation)		2.8	0.2	(94%)
<b>Total Cash Revenue</b>		<b>173.3</b>	<b>183.3</b>	<b>6%</b>
<b>Gross Profit From Continuing Operations</b>		<b>31.9</b>	<b>34.7</b>	<b>9%</b>
Gross Profit Accounting Practice (discontinued operation)		2.6	0.1	(95%)
Gross profit (loss) attributable to Loan book re-valuation		(3.9)	1.4	(135%)
<b>Total Gross Profit</b>		<b>30.5</b>	<b>36.2</b>	<b>19%</b>
Operating Costs		(41.1)	(33.3)	(19%)
Non Operating Costs		(2.1)	(0.8)	(61%)
<b>Net (Loss) Profit Before Taxation</b>		<b>(12.7)</b>	<b>2.1</b>	
<b>Net (Loss) Profit After Taxation</b>		<b>(9.5)</b>	<b>1.0</b>	
<b>EBITDA</b>		<b>(9.2)</b>	<b>5.5</b>	
<b>Underlying EBITDA</b>		<b>(3.9)</b>	<b>5.2</b>	

\* Includes Share of Smarter Money JV income



**YellowBrickRoad**  
Wealth Management

# FY17 Balance Sheet

- YBR market capitalisation (@\$0.15) of \$42m is below embedded value of loan book
- The loan book is independently valued by Deloitte annually and reflects the net present value of future net cash inflows expected from existing loans
- The Company has adequate cash and undrawn facilities

Balance Sheet	Jun-16	Jun-17	%var
	\$'m	\$'m	
Cash	6.9	5.1	(26%)
Goodwill (Acquired Businesses)	31.8	30.2	(5%)
Other Intangible Assets	3.9	4.5	13%
Prepaid Advertising	1.2	1.2	(0%)
Total Debt	(7.6)	(8.7)	14%
Loan Book embedded value	43.3	49.9	15%
Deferred tax	(2.4)	(3.4)	40%
Other	(5.5)	(5.5)	0%
<b>Net Assets</b>	<b>71.67</b>	<b>73.32</b>	<b>2%</b>
<b>Cash and undrawn facilities</b>	<b>10.55</b>	<b>6.52</b>	<b>(38%)</b>
Number of shares (m)	281	281	
Share price (\$)	0.19	0.15	
Market Capitalisation (\$m)	<b>53.4</b>	<b>42.2</b>	(21%)
Net Tangible Assets (\$m)	<b>35.9</b>	<b>38.6</b>	8%
Net Tangible Assets per share (\$)	0.128	0.137	
Loan Book Embedded Value (\$m)	<b>43.3</b>	<b>49.9</b>	15%
Loan Book Embedded Value per share (\$)	0.154	0.177	

# FY17 Cash Flow

- Y Underlying Operating Cash Surplus \$0.6m
- Y Cash used in investing activities includes
  - Y \$1.9m received from the disposal of the accounting practice
  - Y \$1.4 m invested in technology and infrastructure
  - Y \$0.4 deferred consideration for Acquisition of Loan Avenue

Consolidated Cash Flow	Jun-17
	\$'m
Net cash used in operating activities	(2.32)
Net cash used in investing activities	(0.51)
Net cash from financing activities	1.06
Net decrease in cash and cash equivalents	(1.78)
Cash & cash equivalents at start of period	6.85
<b>Cash &amp; cash equivalents at end of period</b>	<b>5.07</b>
Timing Differences	
Creditors timing	1.10
Integration cost	1.05
Trail right acquisition	0.79
<b>Underlying operating cash surplus</b>	<b>0.62</b>